

**EDUCATION DEVELOPMENT INTERNATIONAL PLC  
SAMPLE PAPER ANSWERS 2008  
COST ACCOUNTING (ASE2017)  
LEVEL 2**

---

**QUESTION 1**

(a) **LIFO**

March	Receipts		Issues		Balance	
	Quantity	Price £	Quantity	Price £	Quantity	£
1						Nil
3	200 x £1.00	200.00			200	200.00
7			180 x £1.00	180.00	20	20.00
8	240 x £1.50	360.00			260	380.00
14			170 x £1.50	255.00	90	125.00
15	230 x £2.00	460.00			320	585.00
21			150 x £2.00	300.00	170	285.00

**Weighted average**

March	Receipts		Issues		Balance		
	Quantity	Price £	Quantity	Price £	Quantity	£	
1						Nil	
3	200 x £1.00	200.00			200	1.00	200.00
7			180 x £1.00	180.00	20	1.00	20.00
8	240 x £1.50	360.00			260	1.46	380.00
14			170 x £1.46	248.20	90	1.46	131.80
15	230 x £2.00	460.00			320	1.85	591.80
21			150 x £1.85	277.50	170	1.85	314.30

(14 marks)

(b) In times of rising prices the use of the LIFO method will give lower profits than the use of the weighted average method. This is because the latest prices will be charged to cost units and thus to cost of sales, whereas with the weighted average method the price changes are smoothed out over a period of time.

(4 marks)

- (c)
- Goods received note
  - Materials requisition

(2 marks)

**(Total 20 marks)**

**QUESTION 2**

(a) Original labour cost 150 units per week

Operator	Hours	x	Rate (£)	£
A	40		6.0	240
B	40		6.0	240
C	40		8.0	320
D	40		10.0	<u>400</u>
				<u>1,200</u>

(or 40 hours x £30 per hour)

**Incentive Scheme**

Operator	Basic	£	+ Bonus (180 x £1.20)	
A	40 x 3	120	+216	= 336
B	40 x 3	120	+216	= 336
C	40 x 5	200	+216	= 416
D	40 x 7	<u>280</u>	<u>+216</u>	= <u>496</u>
		720	864	<u>1,584</u>

(or 40 hours x £18 per hour)  
+ (180 units x £4.80 per unit)

Cost per unit  $\frac{\pounds 1,200}{150 \text{ units}} = \pounds 8$  (current)

$\frac{\pounds 1,584}{180 \text{ units}} = \pounds 8.8$  (incentive scheme)

(14 marks)

(b) The bonus scheme is not more costly because management have failed to take into account unit overhead costs.

	Current time rate	Incentive scheme
	£	£
Wages	1,200	1,584
Overhead (fixed)	<u>2,400</u>	<u>2,400</u>
	<u>3,600</u>	<u>3,984</u>
Units produced	150	180
Cost per unit	£24	£22.13

(6 marks)

**(Total 20 marks)**

### QUESTION 3

- (a) (i) Break even point in units

	£/unit
Selling price	2.90
- Variable cost	<u>1.50</u>
Contribution	<u>1.40</u>

Fixed costs per annum £2,800 x 12 = £33,600

Break even  $33,600 \div 1.40 = 24,000$  units

- (ii) Sales units to increase current profit by 10%

	£
Fixed costs	33,600
Required profit 42,000 x 1.1	<u>46,200</u>
Required contribution	<u>79,800</u>

Sales required  $\frac{79,800}{1.40} = 57,000$  units

- (b) (i) Contribution per unit £3.30 - £1.50 = £1.80

Break even  $33,600 \div £1.80 = 18,667$  units

- (ii) Sales units to maintain current profit

	£
Fixed costs	33,600
Profit	<u>42,000</u>
Required contribution	<u>75,600</u>

Sales required  $\frac{75,600}{1.80} = 42,000$  units

- (c) Assumptions:

- Fixed costs are constant at all levels of output
- Variable costs per unit are the same at all levels of output
- Sales prices are constant at all levels of output

Additional acceptable answers could be:

- Production and sales levels are the same (stocks are ignored)
- Ignores uncertainty in estimate of fixed and variable costs

## QUESTION 4

Cash budget March – May, Year 5

	<b>March</b>		<b>April</b>		<b>May</b>
	<b>£</b>		<b>£</b>		<b>£</b>
<b>Receipts</b>					
Debtors	[1] 77,780	[2]	81,840	[3]	90,100
Cash sales	20,000		22,000		25,000
Sales of machinery	<u>-</u>		<u>-</u>		<u>9,000</u>
Total	<u>97,780</u>		<u>103,840</u>		<u>124,100</u>
<b>Payments</b>					
Creditors	61,000		60,000		69,000
Wages	10,000		10,000		9,000
Overhead	<u>24,000</u>		<u>24,000</u>		<u>29,000</u>
Total	<u>95,000</u>		<u>94,000</u>		<u>107,000</u>
Net cash flow	2,780		9,840		17,100
Opening balance	<u>15,000</u>		<u>17,780</u>		<u>27,620</u>
Closing balance	<u>17,780</u>		<u>27,620</u>		<u>44,720</u>

## WORKINGS

Receipts from debtors

<b>[1]</b>	<b>March</b>	<b>£</b>
40%	March £80,000 =	32,000
45%	February £82,000 =	36,900
12%	January £74,000 =	8,880
		<u>77,780</u>
<b>[2]</b>	<b>April</b>	<b>£</b>
40%	April £90,000 =	36,000
45%	March £80,000 =	36,000
12%	February £82,000 =	9,840
		<u>81,840</u>
<b>[3]</b>	<b>May</b>	<b>£</b>
40%	May £100,000 =	40,000
45%	April £90,000 =	40,500
12%	March £80,000 =	9,600
		<u>90,100</u>

## QUESTION 5

(a) Direct material cost variances (workings)

	<b>Polyester</b>	<b>Cotton</b>
Standard cost of actual output		
Grade A 3,200 metres x	(0.2 x £3) £1,920	(0.3 x £4) £3,840
Grade B 4,000 metres x	(0.2 x £3) £2,400	(0.2 x £4) £3,200
<u>Total standard material cost of actual output</u>	£4,320	£7,040
<u>Standard cost of actual materials consumed</u>		
Polyester 1,300 kg x £3	£3,900	
Cotton 1,900 kg x £4		£7,600
<u>Actual cost of direct materials</u>	£4,050	£7,200
Total materials cost variance		
Polyester £4,320 - £4,050 =	£270F	
Cotton £7,040 - £7,200 =		£160A
(i) Materials usage variance		
Polyester £4,320 - £3,900 =	£420F	
Cotton £7,040 - £7,600 =		£560A
(ii) Materials price variance		
Polyester £3,900 - £4,050 =	£150A	
Cotton £7,600 - £7,200 =		£400F

(b) Direct labour cost variances (**workings**)

<u>Standard cost of actual output</u>	
Grade A	$3,200 \times \frac{15}{60} = 800$ hours
Grade B	$4,000 \times \frac{12}{60} = 800$ hours
Total standard hours 1,600 x £8 = £12,800	
<u>Standard cost of actual hours worked</u>	
1,580 x £8 = £12,640	
<u>Actual cost £12,200</u>	
Total direct labour cost variance	
£12,800 - £12,200 = £600 FAV	
(i) Direct labour efficiency variance	£12,800 - £12,640 = £160 FAV
(ii) Direct labour rate variance	£12,640 - £12,200 = £440 FAV